

Introductory Statement of
Philip A. Leone
Elementary and Secondary School Funding
Joint Legislative Audit and Review Commission
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This afternoon, Mr. Chairman, we present our findings on State funding of the Standards of Quality (SOQ) and local school division expenditures above those required by the SOQ.

Our analysis indicates that localities which have educational expenditures beyond the SOQ have some valid reasons to be concerned about the level of responsibility that they bear for education costs.

We have developed a tiered array of cost options for the General Assembly's consideration, ranging from more accurate cost estimates of implementing the SOQ to broad policy options supplementing the standards. Tier one presents proposed adjustments for estimating costs of the SOQ, based on current standards and prevailing cost estimates. We believe that these adjustments in cost estimation practices should achieve more realistic SOQ cost results over the long term compared to current practice.

Tier two includes options for funding those additional operating costs which the majority of school divisions already bear, but the State does not generally fund, or does not fund in full in all of the school divisions. Tier three addresses capital cost or debt service funding and teacher salaries. The extent of the State's participation in these areas to go beyond SOQ cost levels is clearly a policy choice of the General Assembly.

I want to emphasize, Mr. Chairman, that our analysis does not suggest how much money the General Assembly ought to appropriate in support of public education in total. That decision, according to the *Constitution*, depends on the goals and objectives proposed by the Board of Education, revisions the General Assembly might make to those goals, and a legislative determination of the manner of funding and the apportionment of costs between the State and the localities which comprise the school divisions.

Tier One: Meeting SOQ Costs

In this first tier, our analysis examines the costs of implementing the existing Standards of Quality. The standards are promulgated by the State Board of Education in their Standards of Accreditation and other regulations; they are specified in the *Code of Virginia*; and they are addressed by the General Assembly in the Appropriations Act. These standards constitute what the Board of Education has determined to be minimum, but high-quality educational requirements for local school divisions.

In 1985, JLARC developed a methodology for estimating SOQ costs. This methodology is rooted in the real costs that have been incurred by school divisions across the Commonwealth as they have implemented the standards. The JLARC staff approach was used by the 1986 and 1988 General Assembly. However, since the early 1990s, several changes have been made in the original JLARC methodology, resulting in local school divisions assuming more SOQ foundation costs. Mr. Rotz will describe these changes in his briefing this afternoon.

For the upcoming biennium (2002-2004), Department of Education (DOE) estimates indicate that an additional \$377 million in State funds will be needed to fund a 55 percent State share of the SOQ, based on routine updates to the SOQ cost funding model. The bottom line of our analysis is that we estimate an increased State cost for the SOQ of \$1.06 billion, or \$683 million above DOE's cost estimate of routine updates to fund the standards.

Tier Two: Enhancing the Recognition of Instructional Personnel and At-Risk Pre-School Funding

Tier Two presents a range of options for the General Assembly's consideration. The analysis indicates that local school divisions may have good reason to believe that the State should assume more of the costs of implementing existing instructional requirements associated with elementary resource teachers and the required planning period for secondary grades. These two funding items alone would cost the State an estimated \$386 million during the 2002-2004 biennium.

Another option for expanded State payments for pre-school programs would cost between \$9 to \$83 million over the next biennium, depending on which cost issues are addressed by the State.

Tier Three Funding Options: Debt Service to Supplement Current State Funds for Capital Projects and Teacher Salary Costs

The third and final tier addresses capital cost funding and teacher salary options. The issues in this tier present some unique concerns. The State historically has had a limited role in funding locally-built facilities, but in recent years has substantially increased its funding for this purpose with lottery funds and school construction grant funds. The State's degree of participation in this area is a policy choice.

With regard to teacher salaries, the State currently lacks a clear policy or salary goal. State-supported salary increases for teachers during the 1990s have generally been minimal, and the State lost ground during the decade compared to other southeastern states and the national average. The report recommends that as a starting point, the State may wish to estimate SOQ costs using salary increases at least equal to the prevailing school division practices from recent years. Beyond that, the report recommends that the General Assembly and Governor consider establishing a task force to consider what the State's goals should be with regard to teacher salaries.

Current Framework for Determining State and Local Responsibilities for Paying Education Costs

In addition to determining SOQ costs, the *Constitution of Virginia* provides the General Assembly with the responsibility for determining State and local shares for SOQ costs. We found that the current framework which is utilized for determining these shares appears to be compatible with constitutional provisions. Further, about three-quarters of all State funds are distributed using a measure of local ability to pay.

However, we do recommend that the General Assembly may wish to consider adjusting the current composite index to: (1) provide for a population density adjustment, (2) update the relative weights that are given to the real property, sales tax, and other revenue components, and (3) use a composite index that takes median adjusted gross income into account for localities with skewed income distributions. In addition, if the State continues to reimburse localities for foregone revenues due to the phase-out of the local personal property tax, the General Assembly may wish to consider in the future how the composite index could be improved to better address this aspect of local ability to pay.

Finally, Mr. Chairman, I would like to thank the Superintendent of Public Instruction, Dr. Jo Lynne DeMary, and her staff for their assistance throughout this study, especially Mr. Dan Timberlake and Mr. Kent Dickey for answering our many questions on the education budget and SOQ funding model issues. Also, a special thanks to local school divisions for filling out their lengthy and exhaustive surveys, which were integral to the study's analysis. We had a 100 percent response.

Now, Mr. Chairman, I would like to introduce Mr. Bob Rotz, Senior Division Chief, who was responsible for directing this study.

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